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South Africa Property Insurance Market Update

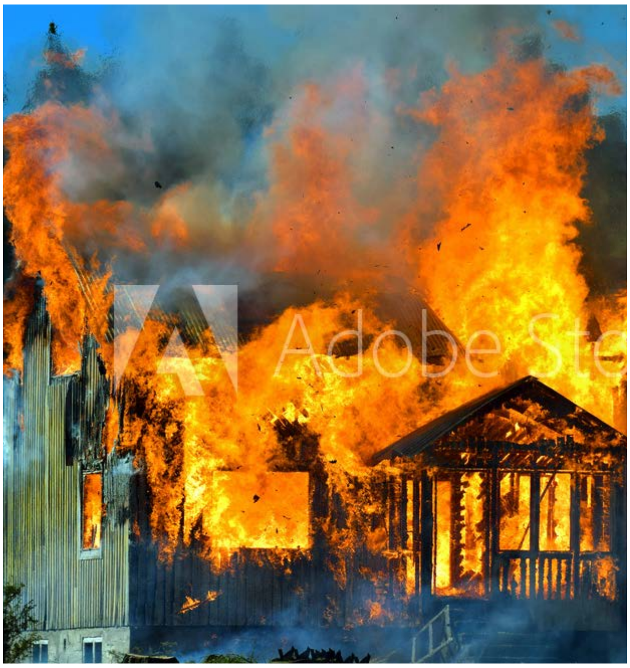
The property insurance market in South Africa has seen significant rate increases in the last two years. Many insurers are seeking to increase underwriting discipline in order to return to profitability.

These changes stem largely from South Africa's spate of natural catastrophes in recent years, including tornados, flash floods, freak hailstorms, deluge, drought, and fires. For example, 2017 was an unprecedented year for natural disasters, fires, and large-scale individual losses, with insurance losses estimated to have exceeded R14 billion.

The magnitude of some losses was significantly worsened due to basic procedures, such as hot-work permits, not being adhered to; inadequate water supply to fight fires; impaired fixed-fire protection systems; and the nature of goods stored.

As a result of these losses, most property insurance buyers experienced rate and deductible increases on their renewals in 2018. There were also restrictions of capacity for "hazardous" risks, with no capacity available in some extreme cases; requirements for risk management and location information also increased.

Although 2018 saw fewer South African catastrophe losses, there were large individual losses – for example, in the mining industry – that will continue to put pressure on the profitability of insurers' property book. This means that stringent underwriting and pressure to increase rates and retentions will remain.



Looking Ahead

Certain industries and companies have been particularly affected by increased rates and tighter terms and conditions, including those with:

- Unsprinklered or semi-sprinklered risks.
- Risks not adequately protected from a fire, or other risk-specific exposure (for example, flood).
- A poor claims experience with a high frequency of smaller losses.
- Traditionally challenging risks – for example, solvent extraction, plastics, chemicals, oils, seeds and grain processing, waste recycling, warehousing, woodworking, pulp and paper, food, cold storage, and mining.

Meanwhile, more nominal changes have been experienced by companies with:

- Favoured occupancies and historical pricing adequacy.
- Robust risk management and physical fire protection.
- Good loss record and adequate retentions.
- A track record of risk improvement.

Despite recent property insurance rate increases, most insurers believe they should increase further. Insurers are under immense pressure to improve profitability, with many considering it easier to decline a difficult risk than underwrite it. Insurers are reducing capacity per risk, and some are coming off risk completely, meaning that insurance has to be negotiated with new insurers. As well as pushing for increased deductibles and rates, insurers are including warranties in wordings (for example, hot-work permits, compliance with national standards).

Requests for additional information – such as surveys or responses to risk recommendations – will continue, and insurers will expect evidence of continued risk improvements where risks are not highly protected. There will also be pressure on certain coverage extensions (for example, contingent business interruption), where insurers cannot adequately assess the risk, meaning that cover will be reduced, further sublimited, or withdrawn.

Tips for Buyers

In this transitioning market, it is crucial to start the renewal process early. This allows more time to analyse and improve information, while maintaining flexibility with renewal options and strategies.

Risk mitigation procedures and business continuity planning is becoming more important, as underwriters seek greater understanding of companies' risk profile. Data quality will continue to be vital; risk surveys are required and risk recommendations need to be responded to.

Reviewing renewal experience for the past five years with regard to coverage, rates, values, and premium, can potentially indicate future renewal challenges.

It will take longer to negotiate a reasonable result from insurers – so be prepared to negotiate on retention levels and non-critical coverage extensions to mitigate price increases.

For further information, please contact your local Marsh office or visit our website at marsh.com.

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